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MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
OFFICE OF FINANCIAL ACCOUNTABILITY
222 THIRD AVENUE NORTH, SUITE 315
NASHVILLE, TENNESSEE 37201

May 7, 2004

Kathryn R. Edge, Board Chair
Neighborhood Justice Center
1310 Jefferson Street, Suite 200
Nashville, Tennessee 37208

Dear Ms. Edge:

Please find attached the Monitoring Report for the Neighborhood Justice Center, relating to our follow-up of the recommendations from the monitoring report issued September 12, 2002 for the fiscal year ended June 30, 2002 and for the grant awarded for the fiscal year ended June 30, 2003. The Division of Grants Monitoring is charged with the responsibility of monitoring grant funds from the Metropolitan Government of Nashville and Davidson County to any nonprofit organization receiving Council appropriations. Staff from our office conducted the site visit for this follow-up review on May 12, 2003.

We appreciate your cooperation during our review and the assistance provided us by your agency during the course of the follow-up review. We hope you find the results useful for administering future grants for the Neighborhood Justice Center. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom, CPA
Director

cc: David Manning, Director of Finance
Nancy Whittemore, Assistant Director of Finance
Mitzi Martin, Assistant Director of Finance
Kim McDoniel, Internal Audit
LaShawn N. Barber, Division of Grants Monitoring



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Metropolitan Government of Nashville and Davidson County

◆ Monitoring Report of ◆

Neighborhood Justice Center (Mediation, Inc.)

Issued by



Office of Financial Accountability

Fred Adom, CPA
Director

Lead Auditor:
LaShawn Barber

May 7, 2004

Our Vision: To be excellent and proficient in monitoring and management services.

MONITORING REPORT
FOR THE
NEIGHBORHOOD JUSTICE (MEDIATION, INC.)

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EXECUTIVE SUMMARY

The Office of Financial Accountability (hereinafter referred to as 'OFA') has completed a follow-up review of the Recommendations from the Monitoring Report for the Neighborhood Justice Center (hereinafter referred to as "NJC", "agency", or "grantee") issued September 12, 2002. The original monitoring review for which the report was issued included the grant contract that was effective during the fiscal year ending June 30, 2002. The OFA also completed a monitoring review for the fiscal year ended June 30, 2003.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective for the follow-up review was to determine whether the recommendations from the previous audit have been implemented, partially implemented, or not implemented. The objective for our monitoring review included the following:

- To determine whether the agency has the resources and capacity to administer the grant funds.
- To determine if costs and services are allowable and eligible
- To determine whether agency met program objectives
- To determine the reliability of the agency's financial reports
- To determine the reliability of the agency's internal controls
- To determine whether the agency met civil rights requirements

A monitoring review is substantially less in scope than an audit. The OFA did not audit the NJC's financial statements and accordingly, does not express an opinion or any assurance regarding the financial statements of the Board. A follow-up review is also limited in scope. Our follow-up review covered the operations of the NJC since the prior monitoring review, or July 1, 2002 through March 31, 2003, and the status of the recommendations made in the prior monitoring report. The monitoring review encompassed the agency's operations related to grant L-594 for \$133,100.

To accomplish the objectives of the reviews, the OFA conducted interviews and an objective review of financial and administrative operations and files. This review was performed in accordance with the Generally Accepted Government Auditing Standards and in compliance with the Office of Management and Budget (OMB) Circular A-110, "Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations" and OMB Circular A-122, "Cost Principles for Nonprofit Organizations."

Results of the Reviews

Follow-Up Review:

Based on the tests performed, the OFA finds the NJC worked toward proper implementation of the prior recommendations or other alternative solutions. We found the agency has made continuous efforts at improving internal controls, but still requires further improvements. See the "Status of Previous Recommendations for Improvement" section for further discussion.

Monitoring Review:

For our review of the Metro appropriation awarded to the NJC for the year ended June 30, 2003, the OFA found the agency had generally improved its internal controls and fiscal responsibilities. We noted problems with financial and programmatic reports and as such, we concluded that the agency should improve its reporting efforts. See the "Findings and Recommendations" section for further discussion of this problem.

STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT

The following table represents the status of the recommendations for improvement from the monitoring report issued in September 2002. The NJC operations were evaluated to determine whether each recommendation was fully implemented (I), partially implemented (PI), not implemented (NI), or not applicable (N/A).

No.	PREVIOUS RECOMMENDATION	STATUS			
		I	PI	NI	N/A
1.	Management should immediately ensure that all agency policies and procedures for various operational processes are documented in writing and compiled into a readily available manual. At a minimum, the comprehensive manual should include policies for human resources, accounting, and procurement procedures. Such a manual should be available to all company employees and outside reviewers. Management should also ensure that the manual is maintained and that updated on a regular basis. As such, the manual should clearly indicate the revision date(s).	v			
2.	The Neighborhood Justice Center should immediately obtain the necessary nondiscrimination postings, as required by law, and post immediately in prominent place(s) in the office space.	v			
3.	Management should take the appropriate measures to ensure that proper accounting controls are implemented to provide better segregation of duties, recordkeeping, and documentation of activities.		v		
4.	Management should establish consistent and effective procedures for reporting and monitoring reported data that ensures reliable and accurate information. At a minimum, the agency should establish policies and procedures for reporting cost data and should ensure that all information reported to outside entities is fully traceable to source data and adequately supported.		v		

Further Comments:

Based on our review, the agency still needs to improve in its documentation of purchases made. At a minimum, contracts should be executed for fee-for-service vendors such as trainers, bookkeeper, computer maintenance, etc.

Also, the NJC continues to have issues with its reporting efforts. The agency has complied with Metro's new quarterly billing methodology, however it did not comply with the annual reporting requirements. Furthermore, completed reports continue to contain mathematical errors which required repeated correction by Metro before processing for payment. Because this remains a significant issue, the OFA cites a finding in the "Findings and Recommendations" section of this report.

RESULTS OF MONITORING

The overall results of the monitoring review for the NJC are provided in this section. These results are based on tests performed and include conclusions regarding specific review objectives and, if applicable, recommendations for improvement.

1. Resources and capacity to administer the grant funds

Our review of the agency's accounting system, the qualifications of the individuals assigned to manage the accounting records, and observation of the procedures in place indicate that the NJC has the necessary resources and ability to administer the Metro grant funds. The agency uses Peachtree accounting software to record financial transactions. We also noted that the agency employs a part-time bookkeeper with several years of accounting experience to record the financial activity. This individual appears to adequately perform the duties. According to the minutes for the Board of Directors meetings for the review period, the NJC appears to have close Board oversight and active Board participation.

Further, the agency appears to have the necessary capacity to administer the grant funds. As a cash basis organization, the NJC has no liabilities and, therefore, no issue with solvency based on our review of the NJC's audited financial statements for the year ended June 30, 2002.

2. Allowable and eligible services and costs

The contract between Metro and the NJC for the period ending June 30, 2003 was for operating costs in various line items including salaries, postage, supplies, occupancy, etc. The contract states the agency would use the funds "to train mediators and to cover the cost to conduct mediation services."

Without more specific requirements as to the use of the grant funds, our tests covered a sample of all disbursements made by the NJC as of March 31, 2003. Based on these tests, we found that the costs incurred appear to comply with applicable guidelines, including OMB Circulars A-122 and the Metro Grants Manual.

Per the Metro Grants Manual, the accounting system used by Metro grant recipients must avoid the commingling of Metro funds with other sources of funding. It appears the agency separately accounts for grant funds received; however, the grant-related expenses are intermingled with the agency's general operating expenses. Since the Metro grant contract basically covered the NJC's operational expenses, the OFA notes no finding in this respect.

3. Program objectives

Based on the auditor's observations of operations and the related program reports, we could not determine the extent to which the agency is accomplishing its programmatic objectives. During the site visit, the auditor obtained the NJC's mediation logs, which are maintained in the office and include the mediation activity for all active cases. In our determination, we could not verify the agency's program accomplishments as reported in a 2002 report using these logs. This is an instance of the agency's need to improve its reporting efforts, which is also discussed in #4 below. A finding has been developed to address this problem in the "Findings and Recommendations" section.

4. Reliability of financial and programmatic reporting

Our review of a sample of financial reports submitted by the NJC revealed no specific issues of noncompliance; however, we did not continue problems in the agency's reporting efforts. We found that the total expenditures reported to Metro did not always agree with the amounts recorded in the agency's official accounting records. After further review, we determined that total expenditures for the agency exceeded the reported expenditures by over \$10,800 as of March 31, 2003.

RESULTS OF MONITORING

Per the Metro contract, the NJC was required to submit an Annual Expenditure Report and a Final Program Report within 45 days of the close of the grant period; in this case, the reports were due by August 14, 2003. The agency did not submit the reports as required. Because of this and other issues, a finding was developed in the section that follows.

5. Reliability of internal controls.

Overall, we found that the agency's internal controls have improved with the implementation of the recommendations from the prior monitoring review. As noted in the previous section, the NJC has incorporated key policies and procedures that will provide guidance as to the. The agency has also improved its recordkeeping and established an appropriate level of segregation of duties.

Further review of the operations revealed some weaknesses in internal controls such as adherence to internal policies and procedures and documentation. Overall, we found the agency should more effectively ensure that approval for each disbursement is evident within the supporting documentation. We also recommend the agency ensure adequate supporting documentation is maintained for its disbursements (such as invoices, contracts, payment rates, etc.). Finally, the NJC should also ensure it adheres to its policy for required signatures on check payments over \$500. Although these issues were noted during our testing, they were not significant enough to require a finding. Nonetheless, future reviews by the OFA will reevaluate these issues.

6. Contractual compliance.

Overall, the OFA found the agency in compliance with the contract requirements. The purpose of the Metro grant was "to train mediators and to cover the cost to conduct mediation services." The NJC has complied with this scope of services, based on our inquiry and review of disbursements. The Metro contract requires compliance with civil rights regulations and further requires the agency to show proof and post notices of nondiscrimination. The OFA noted no specific instances of noncompliance with these contractual requirements, as the agency implemented our recommendation to post the required postings throughout the agency offices. We also reviewed the agency's personnel policies, which address nondiscrimination in employment and services provided.

FINDINGS AND RECOMMENDATIONS

Based on the tests performed, the OFA determined the following to be significant deficiencies to internal controls and/or compliance with applicable guidelines.

1. **The NJC should improve its reporting efforts.**

FINDING

Our review of all available financial and programmatic reports revealed inadequacies in the agency's reporting efforts. Specifically, we found the following problems with the agency's reports:

- **Quarterly requests for reimbursement contained mathematical errors.** Such errors required Metro's follow-up and, at times, the agency's revisions before processing for payment.
- **The OFA was not able to confirm the numbers reported on** the Mediation Status Report for 2002 to the mediation logs maintained by the agency. The report serves as a tracking mechanism for the referral and mediation date, victim and offender, mediator assigned, and resolution of mediation.
- **The NJC did not comply with Metro's reporting requirements** by submitting an Annual Expenditure Report or a Final Program Report to the Division of Grants Coordination.

Good business practices dictate that financial reporting be reliable; in essence, such reporting should be accurate, complete, and free from errors to provide assurance of proper payments. Good practices also dictate that information reported to the grantor, whether financial or programmatic, be adequately supported. Furthermore, according to the payment terms and conditions of the grant contract, section C.4 states, "the Grantee shall submit a final grant expenditure report within 45 days of the end of the grant contract." Such financial reporting is necessary to "reconcile grant receipts with grant revenues," as stated in the Metro Grants Manual. Additionally, section D.9 states that a Final Program Report which details the activities funded under the grant is also due within 45 days of the end of the contract.

RECOMMENDATION(S)

Management should take the necessary measures to ensure the following:

- the agency's compliance with all grant reporting requirements,
- financial data is accurate, complete and verifiable, and
- supporting documentation is maintained to adequately support data reported to Metro and/or other grantors.